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RUEHAK/AMEMBASSY ANKARA PRIORITY 4186
RUEHBJ/AMEMBASSY BEIJING PRIORITY 1998
RUEHKO/AMEMBASSY TOKYO PRIORITY 1863
RUEHIT/AMCONSUL ISTANBUL PRIORITY 2434
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RUEAIIA/CIA WASHDC PRIORITY
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RUEKJCS/JOINT STAFF WASHDC PRIORITY
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RUEKJCS/SECDEF WASHDC PRIORITY
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C O N F I D E N T I A L ASHGABAT 001093

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TREASURY FOR BAKER/LANIER

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SUBJECT: TURKMENISTAN: STILL MULLING REDENOMINATION AND
CURRENCY REVALUATION

REF: 07 ASHGABAT 1124

Classified By: Charge d'Affaires Sylvia R. Curran for reasons 1.4(B) and (D).

¶1. (C) During an August 19 dinner, European Bank for Reconstruction and Development Head of Mission Neil McKain told Charge that Turkmenistan's Central Bank is still uncertain exactly how to manage redenomination, which is scheduled to be implemented on January 1, 2009, or what to use as the denomination base. Specifically, Central Bank officials are not sure whether to simply lop off three zeros from the current denomination (making ten new manat equivalent to 10,000 of today's manat) or to use another base. Officials also still have not decided on what denominations of bills to print -- or finalized the designs on the bills. However, McKain added, they have decided that President Berdimuhamedov's portrait will not appear on any of the bills, and former President Niyazov's portrait will appear on only one bill.

¶2. (C) The AmCit country manager of Bertling Logistics claimed that the Central Bank had originally planned to use October as a target date for testing a new revaluation of the currency, this time taking the unified exchange rate to 10,000 manat to the dollar, but may be reexamining this plan. The problem, he said, is that Central Bank officials do not know how to determine the manat's actual value. McKain agreed, stating that to date, Central Bank officials have not even decided what strategy to follow in determining the manat's value in international currency markets -- floating the currency, using a peg or other means -- though the International Monetary Fund suggested a peg. Given the problems that Turkmenistan's Central Bank officials are having in deciding these issues, McKain suggested, it is clear they will not be in a position for many more years to begin setting monetary policy, as most other central banks around the world do. The problem is not that they are stupid, but rather, that they simply are "Gosplan economists" without an adequate understanding of market economy principles.

¶3. (C) COMMENT: All agree that the last quarter of 2008 and first quarter of 2009 will be very interesting, as officials

try to implement President Berdimuhamedov's ambitious goals, which are well-meaning but not always well-consulted and sometimes too-hasty. We fully concur with McKain's comments about the Central Bank's abilities: unification of Turkmenistan's dual currency exchange rate was clumsy at best, and performed in a way that hurt many of Turkmenistan's most economically vulnerable populations. However, all agree that these changes are necessary if Turkmenistan is to succeed in adopting market economy principles. In the end, the Central Bank still seems determined to follow through on the promise that a junior director made in May to a visiting EBRD delegation to allow "the market to decide the exchange rate." END COMMENT.

CURRAN